MEPP

management employees pension plan

ANNUAL REPORT

09

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MEPP PROFILE

The Management Employees Pension Plan (MEPP) was originally established in 1972 as the Public Service Management Pension Plan for management employees of the Government of Alberta and approved agencies, boards and commissions.

In 1993, new legislation was passed that divided the Plan into two separate plans: the Public Service Management (Closed Membership) Pension Plan (Closed Plan) and MEPP.

Members who left the Plan or retired before August 1, 1992 and those who had 35 years of pensionable service by August 1, 1992 became members of the Closed Plan. Funding for the Closed Plan is the responsibility of the Government of Alberta. Active members as of August 1, 1992 became members of MEPP.

MEPP is a contributory defined benefit plan, which means members contribute to the Plan and will receive a formula-based pension determined by their average pensionable salary and years of pensionable service. As of December 31, 2009 MEPP served 19 employers, 5,452 active members, 631 inactive members and 3,112 pensioners. A summary description of Plan provisions is in Note 1 of the financial statements. An overview of the choices and benefits under the Plan is provided in the *MEPP Members' Handbook* (see the MEPP website at www.mepp.ca).

The Board

Governance Statement

The Minister of Finance and Enterprise (the Minister) is the statutory administrator of MEPP and holds all assets of the Plan in trust to provide benefits pursuant to MEPP rules and to meet plan costs.

The *Public Sector Pension Plans Act* sets out the main objectives of the Management Employees Pension Board (the Board) with respect to funding, administration, investments and amending the Plan. The Board monitors the management of the Plan and acts in an advisory capacity to the Minister.

The Board:

- may advise the Minister on any pension matter that is of interest to persons receiving or entitled in the future to receive benefits under the Plan;
- must be consulted before Plan rule changes can be put in place;
- arranges for actuarial valuations, as required, and regularly reviews long-term actuarial assumptions for funding purposes;
- recommends general policy guidelines for the investment and management of the Plan's assets;
- reviews investment performance;
- recommends general policy guidelines on the administration of the Plan; and
- reviews administrative decisions pursuant to a delegation from the Minister.

2009 Board Members

Standing:
Ashif Somani (APS*)
David Lawson
Jan Loree Symon
Jim Hinks**
Scott Kashuba
Wanda Vlahac (APS*)

Seated:
Don Smallwood
Roderick McDermand (Chair)
Nancy Bochard
Joe Doolan**

Missing:
Blake Bartlett (Vice-chair)

* Alberta Pensions Services Corporation (A
(Board Administration)
** External Investment Committee Members

Board Members

- The Board has seven members: three employee nominees, three persons nominated by government and one non-voting member nominated by the Public Service Commissioner's Office.
- The offices of Board Chair and Vice Chair rotate every two years between government and employee nominees.

Board Vision

Promised benefits will be paid.

Board Mission

To provide prudent governance of the Management Employees Pension Plan.

Board Values and Principles

- Plan assets will be managed effectively and efficiently in compliance with governing legislation.
- All decisions made by the Board will be financially prudent, ensuring the overall financial health of the Plan is maintained and costs charged to the Plan are reasonable and equitable.
- Governance of MEPP and the Board will be consistent with governing legislation for the benefit of the members.
- The Board members embrace the prudent person concept in exercising good judgment on behalf of beneficiaries.

2009 MESSAGE FROM THE BOARD

The Board is committed to being active stewards of your pension plan. Our primary focus is to oversee the management of the Plan to help ensure there are sufficient assets to meet promised pension benefits.

During 2008, the world experienced a global financial crisis and recession. The financial health of many defined benefit pension plans, including MEPP, was affected by the resulting economic downturn. Impacts of this recession, including market fluctuations, continued in 2009.

This year, MEPP's asset values reflected a net gain of 15 per cent—a positive result compared to last year's 17.6 per cent loss. However, the long-term performance of the fund has not met the Plan's investment objective, resulting in deficiencies that must be amortized to meet the Plan's long-term pension obligations. Annualized returns over four and eight year periods are 2.6 and 5.1 per cent, respectively; substantially less than the Plan's long-term funding assumption of 6.75 per cent.

In 2010, the Board will complete an actuarial valuation of the Plan as at December 31, 2009. This will be performed following a review of the assumptions used in the actuarial calculations. The valuation will outline the overall contribution rate required to meet the pension plan's obligations. The Board will assess the results of the valuation before providing recommendations to the Minister. After the Minister's consideration, and as required under the pension plan's rules, the valuation will be filed with Canada Revenue Agency to set the total contribution rate. Based on the Board's ongoing monitoring of the Plan and its funded status, we anticipate the valuation will indicate MEPP contribution rates will need to increase, effective January 1, 2011. The results of the valuation will be provided to stakeholders, along with notice of any contribution rate changes.

Plan Investments

Throughout 2009, the Board and its Investment Committee monitored the Plan's investment returns on a regular basis. We worked with Alberta Investment Management Corporation (AIMCo), the Plan's Investment Manager, and our external consultant, API Asset Performance Inc., to identify and address potential risks associated with MEPP's investments. The Board also completed a comprehensive Asset Liability Modeling study. This study was used to review the fund's asset mix structure, performance targets and risk limits. As a result, the Board updated its Statement of Investment Policies and Goals (SIP&G), formerly known as the Statement of Investment Policies and Procedures, in collaboration with AIMCo. The revised SIP&G reflects a re-balanced asset mix that continues to be well diversified and aligned with the Plan's pension benefit obligations. It also positions the portfolio for increased return expectations while still maintaining prudent levels of risk.

Governance

In 2009, the Government of Alberta passed Bill 32, the *Alberta Public Agencies Governance Act (APAGA)*, which provides for greater transparency regarding governance, Board roles, responsibilities and activities. As part of the Board's ongoing commitment to good governance, we completed work on our member self-evaluation and competency matrix. The Board also reviewed its *Code of Conduct and Ethics* and continued its work with Alberta Finance and Enterprise to develop a mandate and roles document. The Board's *Code of Conduct and Ethics* can be viewed at www.mepp.ca.

The Board and its Investment Committee members individually and collectively continued to enhance their knowledge of pension, investment and governance-related matters through educational conferences, seminars and in-house sessions. These actions further comply with *APAGA* and help us effectively carry out our roles and responsibilities on behalf of the Plan and its members.

Additional achievements in 2009 included:

- further progress on the service level agreements with Alberta Finance and Enterprise and MEPP's administrator, Alberta Pensions Services Corporation (APS);
- regular communication and feedback with Alberta Finance and Enterprise representatives on issues of governance and funding requirements;
- monitoring changes to AIMCo's investment programs and organization to evaluate their potential impacts on the MEPP portfolio; and
- a revised business plan.

Looking Forward

In 2010, the Board's activities will focus on:

- conducting an actuarial valuation of the Plan as at December 31, 2009 and providing recommendations on plan funding to the Minister of Finance and Enterprise; and
- continuing our work with AIMCo, including implementing the revised SIP&G and establishing a new investment management agreement.

Acknowledgements

On behalf of the Board, I would like to thank Jan Loree Symon for her service on the Board as the Public Service Commissioner nominee and welcome Christa Taylor as our new Board member. I would also like to congratulate Nancy Bochard and Blake Bartlett on their reappointments for another three years as government and employee nominees, respectively.

The Board is thankful for the contributions and expertise of its Investment Committee, and extends its appreciation to our external Investment Committee members Joe Doolan and Jim Hinks.

Our relationship with Alberta Finance and Enterprise, APS and AIMCo is crucial to the successful implementation of the Board's mandate and we gratefully acknowledge these organizations' continued contributions and support.

The Board wishes to thank APS staff Ashif Somani, Fiona Sonuga and Wanda Vlahac for their assistance during the past year, and welcomes Wanda Vlahac as the new Plan Board Manager for the Board, commencing January 2010.

My term as Chair has ended and I wish to thank the Board for supporting me in that role. I am pleased to welcome Blake Bartlett as the incoming Chair and Don Smallwood as incoming Vice-chair, effective January 1, 2010.

In closing, I would like to extend my appreciation and gratitude to all our Board members and look forward to working with each of you through 2010.

Roderick McDermand

Chair, Management Employees Pension Board

BOARD INFORMATION

Attendance

The Board held eleven meetings during 2009 and the average attendance rate for all the Board members was 94 per cent. The Investment Committee held five meetings during 2009 and the attendance rate at these meetings was 98 per cent (including the external Investment Committee members and other Board members who have an open invitation to attend any of the meetings of the Committee).

2009 Board Meeting Attendance Summary

Meeting Date	Roderick McDermand (Chair)	Blake Bartlett (Vice-chair)	Nancy Bochard	Scott Kashuba	David Lawson	Don Smallwood	Jan Loree Symon
March 16, 2009	✓	✓	✓	✓	✓	✓	✓
April 8, 2009	✓	✓	✓	✓	✓	✓	✓
April 20, 2009 (teleconference)	✓	✓	✓	✓	✓	✓	✗
May 20, 2009	✓	✓	✓	✓	✓	✗	✓
June 5, 2009	✓	✓	✓	✓	✓	✓	✓
August 5, 2009 (teleconference)	✓	✓	✓	✓	✓	✓	✗
September 2, 2009	✓	✓	✓	✓	✓	✓	✓
September 28, 2009 (teleconference)	✓	✗	✓	✓	✓	✓	✗
October 21, 2009	✓	✓	✓	✓	✓	✓	✓
December 2-3, 2009	✓	✓	✓	✓	✓	✓	✓
December 18, 2009	✓	✓	✓	✓	✓	✓	✓
Total (out of 11)	11	10	11	11	11	10	8
Meeting Attendance	100%	91%	100%	100%	100%	91%	73%
					Average Attendance		94%

2009 Investment Committee Meeting Attendance Summary

Meeting Date	Investment Committee Members Board Member		External Members		Other Board Members				
	David Lawson (Chair)	Don Smallwood (Vice-chair)	Joe Doolan	Jim Hinks	Blake Bartlett	Nancy Bochard	Scott Kashuba	Roderick McDermand	Jan Loree Symon
March 17, 2009	✓	✓	✓	✓	✓	✓	✓	✓	✓
June 4, 2009	✓	✓	✓	✓	✓	✓	✓	✓	✓
September 1, 2009	✓	✓	✓	✓	✓	✗	✓	✓	✓
October 20, 2009	✓	✓	✓	✓	✓	✓	✓	✓	✓
December 3, 2009	✓	✓	✓	✓	✓	✓	✓	✓	✓
Total (out of 5)	5	5	5	5	5	4	5	5	5
Meeting Attendance	100%	100%	100%	100%	100%	80%	100%	100%	100%
							Average Attendance		98%

Remuneration

In accordance with best practice standards and in order to be transparent in its operations, the Board has included its remuneration information below.

2009 MEP Board Remuneration

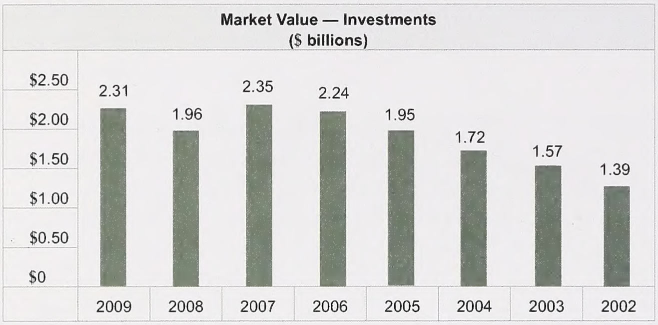
Remuneration	Board Members							External Members (Investment Committee)
	Roderick McDermand (Chair)	Blake Bartlett (Vice-chair)	Nancy Bochard	Scott Kashuba	David Lawson	Don Smallwood	Jan Loree Symon	External Members
Remuneration paid	$13, 899	N/A*	$12,229	N/A*	N/A*	$11,300	N/A*	29,566**
						Total Board Remuneration $66,994		

* Board members who are employees of the Government of Alberta or provincial agencies are not reimbursed for their meeting time.

** In accordance with the Public Sector Pensions Policy (Legislative Provisions) Regulation, External Committee members are paid at a rate equal to twice the amount payable to Board members.

HIGHLIGHTS

For 2009, the Plan experienced a one-year investment gain of 15 per cent. In 2008, investments lost 17.6 per cent. The fair value of the Plan's investments at the end of 2009 increased to $2.31 billion, up $347 million from $1.96 billion at the end of 2008.

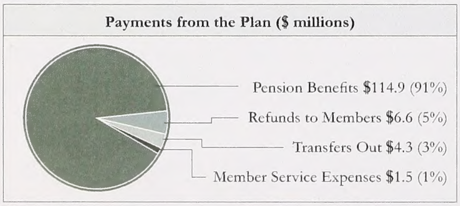


Contribution rates are set at 10.5 per cent of pensionable salary for members and 18 per cent of pensionable salary for employers. Contributions made to MEPP in 2009 totalled $159.2 million, up from $140.2 million in 2008.

	2009		2008	
Contributions	**$ millions**	**%**	**$ millions**	**%**
Employer Contributions	$ 89.8	56	$ 81.4	58
Member Contributions	54.8	35	50.0	36
Transfers from Other Plans*	14.6	9	8.8	6
Total Contributions	**$ 159.2**	**100**	**$ 140.2**	**100**

* Presented net of transfers out on the financial statements.

Payments from the Plan totalled $127.0 million, up from $119.7 million in 2008.



Monthly Payment Distribution*
December 31, 2009

Dollar Value per Month	Pensions Paid
1 to 999	355
1,000 to 1,999	528
2,000 to 2,999	612
3,000 to 3,999	671
4,000 and over	922
Total	**3,088**

* Member and survivor pensions

The Cost-of-Living Adjustment (COLA) granted to pensioners who retired prior to January 1, 2009 is 0.06 per cent. For those who retired during 2009, this COLA increase has been prorated depending on the month of retirement.

DISCUSSION AND ANALYSIS

This Discussion and Analysis (D&A), together with the MEPP Financial Statements, provides an overview of initiatives and achievements during the past year. This D&A does not refer to the Closed Plan, as funding for the Closed Plan is the responsibility of the Government of Alberta.

Review of 2009

The MEPP financial statements use fair value (also known as market value) to measure the value of Plan assets. The method also uses the actuarial value of accrued benefits, with projected adjustments, to bring the figure forward to the current reporting year. The financial statement valuation determines whether there is sufficient funding to cover pension benefits accumulated by members to the end of the reporting year. Financial statements for MEPP are produced every year and reported in the MEPP annual report.

As at December 31, 2009 the Plan's financial statements show the net assets available for benefits were $2.31 billion (2008: $1.96 billion) and the actuarial value of accrued benefits was $2.79 billion (2008: $2.54 billion). This resulted in a shortfall of approximately $483 million (2008: $569 million) and an overall funded ratio of 82 per cent (2008: 78 per cent).

An Asset Liability Modeling Study was conducted in 2009 to provide the Board with an enhanced understanding of the expected future cash flows and liabilities of MEPP. Based on results of this study, the Board updated its SIP&G and the fund's asset mix. Finalization of the SIP&G is anticipated in early 2010 and then the new fund asset mix will be implemented.

Outlook for 2010

Under the *Public Sector Pension Plans Act*, an actuarial valuation is required on no less than a triennial basis. The valuation determines whether the assets in the Plan, as it exists today with current contribution and benefit levels, can fully cover the cost of accrued and future benefits for all existing plan members and their survivors.

In 2010, the Board will conduct an actuarial valuation of the Plan as at December 31, 2009. Results of this valuation will be used to determine the increase required to contribution rates effective January 1, 2011.

Regulation Changes

The Plan rules were amended in 2009 to align with the *Employment Pension Plans Act* in four areas:

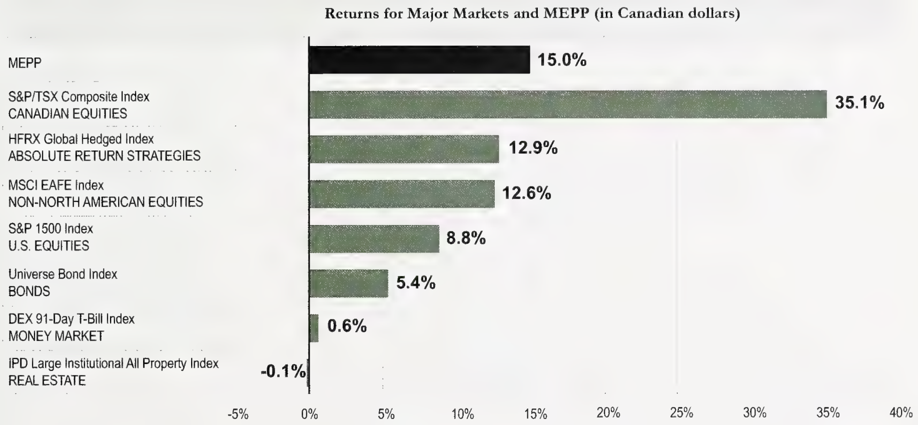
1. introducing a pre-retirement death benefit waiver;
2. updating the small amounts commutation rules;
3. providing for commutation and unlocking of benefits for members who terminate from the Plan and become non-residents of Canada; and
4. amending the definition of pension partner (removing the long-separated spouse from the definition).

To obtain more information about the Plan, any upcoming changes in 2010, or for a glossary of terms, please go to the MEPP website at www.mepp.ca.

INVESTMENT OVERVIEW

In 2009, the Plan recorded a gain of 15 per cent, or $300 million, after investment expenses of $6.8 million. This year's gain represents a significant turnaround from last year's loss of 17.6 per cent, or $417 million. The fair value of the Plan's investments increased to $2.31 billion, up $347 million from $1.96 billion the previous year.

This year's improvement in world equity markets was a considerable turnaround from last year's investment losses resulting from the global credit crisis and recession. The following chart summarizes the market returns from various indices around the world and the overall return of MEPP for 2009.



In 2009, the Canadian stock market represented by the Standard & Poor's Toronto Stock Exchange (S&P/TSX) Composite Index increased by 35.1 per cent up from a loss of 33 per cent in 2008.

Hedge funds, represented by the HFRX Global Hedged Index increased by 12.9 per cent this year, up from last year's loss of 24.5 per cent.

Outside of North America, the Morgan Stanley Capital International Index for Europe, Australasia, and the Far East, (MSCI EAFE Index), measures the performance of approximately 1,000 companies in 21 countries around the world. In 2009, the Index gained 12.6 per cent in Canadian dollars compared to a loss of 29.8 per cent in 2008.

The S&P 1500 Index, which tracks the performance of the top 1500 American companies, increased by 27.3 per cent in U.S. dollars in 2009, a substantial improvement from last year's loss of 36.7 per cent U.S. dollars. Returns were lower when translated into the stronger Canadian dollar, the Index gained 8.8 per cent in 2009 compared to a loss of 21.6 per cent in 2008.

The bond market represented by the DEX Universe Bond Index posted a positive return of 5.4 per cent in 2009 down from 6.4 per cent in 2008.

The Canadian real estate market, represented by the IPD Large Institutional All Property Index, lost 0.1 per cent this year, compared to last year's gain of 3.1 per cent.

Foreign equities comprise 32.9 per cent of the Plan's investment portfolio and the value of these non-Canadian assets is exposed to foreign currency risk. For example, for every one cent change in the U.S. dollar against the Canadian dollar the fair value of the Plan's U.S. equity portfolio, totalling $375 million, changes by approximately $3.6 million. At December 31, 2009, one U.S. dollar was worth $1.05 Canadian compared to $1.22 Canadian at the beginning of the year. As a result of the stronger Canadian dollar, U.S. dollar investments decreased in value when translated into Canadian dollars resulting in lower foreign equity returns.

Investment Management Services

AIMCo is a provincial corporation in the Alberta Ministry of Finance and Enterprise. AIMCo invests MEPP's assets subject to legislation and the investment policies recommended by the Board. AIMCo manages the majority of the Plan's investments internally through pooled investment funds. However, for various reasons, such as to achieve greater diversification, access external expertise and specialized knowledge and reduce operational complexity, some investments are managed by third party investment managers selected and monitored by AIMCo.

The Board monitors AIMCo's services and associated charges. An independent investment consultant, API Asset Performance Inc., assists the Board in its review of the investment performance of the Plan. The Board has designed the Plan's investment policies with a focus on assessing the risk tolerance of the Plan members and ways to manage the inherent volatility of the long-term asset mix.

Statement of Investment Policies and Procedures (SIPP)

The SIPP sets out the governing investment principles and procedures, considering the Plan's provisions, characteristics, and financial obligations. It also defines the management structure and monitoring procedures. The Board reviews the SIPP at least annually and recommends changes if necessary. The SIPP can be viewed on the MEPP website at www.mepp.ca.

Asset Mix

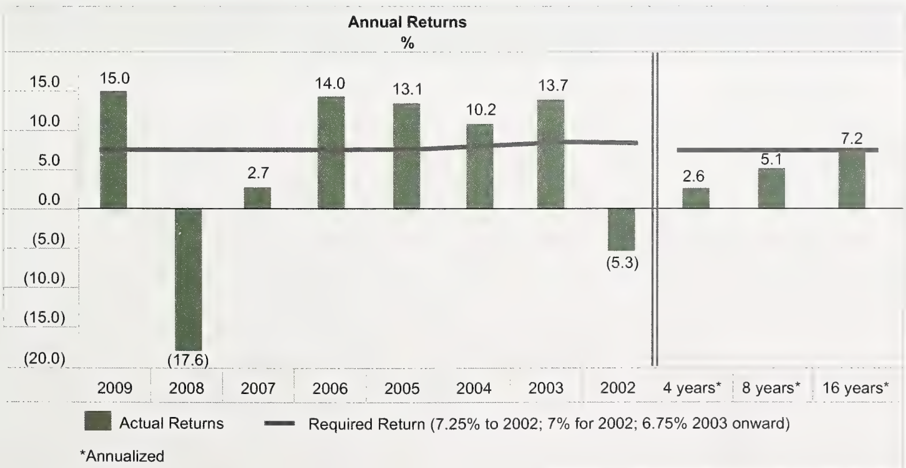
MEPP's asset allocation policy is structured to capture the historically higher rates of return from equities. At December 31, 2009, the long-term target asset mix was weighted more toward equities at 52 per cent, followed by fixed income securities at 33 per cent, real estate at 7 per cent, private income at 4 per cent, private equities at 3 per cent and 1 per cent to absolute return strategies (hedge funds).

The table below shows MEPP's long-term target asset mix in comparison to the Plan's actual asset mix at December 31, 2009 and 2008.

Asset Mix %	Target Policy	Actual 2009	Actual 2008
Fixed Income			
Cash and Short-term	0.5	1.6	0.8
Bonds and Mortgages	29.0	30.1	29.7
Real Return Bonds	3.5	4.0	3.9
	33.0	**35.7**	**34.4**
Equities			
Canadian	22.0	21.8	21.0
Foreign	30.0	32.9	31.0
	52.0	**54.7**	**52.0**
Real Estate	**7.0**	**5.4**	**8.9**
Alternative Investments			
Private Equities	**3.0**	**1.9**	**2.1**
Private Income	**4.0**	**1.9**	**1.8**
Absolute Return Strategies	**1.0**	**0.4**	**0.8**
Total	**100.0**	**100.0**	**100.0**

Long-term Investment Objective

The chart below compares MEPP's overall actual returns for calendar years 2002 to 2009 and the four, eight and sixteen year annualized time periods against the required long-term investment return for funding purposes of 6.75 per cent. In five of the last eight years, the Plan's actual returns exceeded the required long-term annualized investment return. Over eight years, the annualized actual return of 5.1 per cent was 1.65 per cent less than the required long-term annualized return of 6.75 per cent. Over sixteen years, the Plan's annualized return of 7.2 per cent was 0.45 per cent more than the target long-term rate of return of 6.75 per cent.



Value Added Return from Active Management

In order to measure the investment performance from AIMCo's active management, such as security selection, the investment return for each asset class and the overall performance of the Plan's assets are measured against clearly defined benchmarks that have been established in the SIPP.

In 2009, the Plan recorded an overall market value gain of 15 per cent from its investments, 0.1 per cent, or $2 million, less than the benchmark gain of 15.1 per cent. Over four years, the Plan's investments gained 2.6 per cent per year, 0.8 per cent less than the benchmark gain of 3.4 per cent. On an eight-year basis, the Plan gained 5.1 per cent per year, was 0.1 per cent less than the benchmark gain of 5.2 per cent. Over sixteen years, the Plan's investments earned 7.2 per cent, 0.1 per cent greater than the benchmark of 7.1 per cent.

The table below shows the actual investment returns for the Plan and for each asset class and the policy benchmark return in Canadian dollars.

	Annual Returns ($ Canadian)*				Annualized Returns**	
	2009 %	2008 %	2007 %	2006 %	4 Years %	8 Years %
Overall Actual Returns	**15.0**	**(17.6)**	**2.7**	**14.0**	**2.6**	**5.1**
Policy Benchmark Return	15.1	(14.5)	2.6	13.2	3.4	5.2
Consumer Price Index	1.0	1.2	2.4	1.6	1.7	2.1
Short-term Fixed Income	**1.8**	**6.3**	**5.2**	**4.0**	**4.3**	**3.6**
DEX 91-Day T-Bill Index	0.6	3.3	4.4	4.0	3.1	2.8
Bonds and Mortgages	**7.1**	**(0.7)**	**1.9**	**4.8**	**3.2**	**5.6**
DEX Universe Bond Index	5.4	6.4	3.7	4.1	4.9	6.1
Real Rate of Return Bonds	**13.0**	**1.0**	**1.7**	**(2.8)**	**3.1**	**9.1**
DEX Real Return Bond Index	14.5	0.4	1.6	(2.9)	3.2	9.1
Total Long-term Fixed Income	**7.8**	**(1.0)**	**1.9**	**4.1**	**3.2**	**6.0**
Fixed income Index (1)	6.3	5.8	3.5	3.4	4.8	6.5
Canadian Equities	**38.3**	**(33.7)**	**9.2**	**18.2**	**4.3**	**8.1**
S&P/TSX Composite Index (2)	35.1	(33.0)	9.8	17.3	3.9	7.9
Global Developed Equities (3)	**14.9**	**(29.2)**	**(11.0)**	**15.2**	**(2.7)**	**n/a**
Global Developed Equity Index (4)	11.3	(21.6)	(10.6)	15.3	(2.0)	n/a
Emerging Markets	**55.8**	**(32.8)**	**(3.0)**	**26.8**	**6.3**	**(0.8)**
Foreign Equities	**15.4**	**(31.2)**	**(6.8)**	**21.5**	**(2.6)**	**(0.9)**
Foreign Equity Index (4)	11.3	(25.7)	(7.9)	21.1	(2.0)	(0.9)
Real Estate	**(7.3)**	**5.4**	**20.8**	**21.3**	**9.4**	**11.4**
IPD Large Institutional All Property Index (5)	(0.1)	3.1	16.7	18.6	9.1	10.7
Alternative Investments	**2.1**	**(4.9)**	**16.3**	**15.5**	**6.9**	**n/a**
Alternative Investments Index (6)	23.2	(15.5)	10.3	15.0	7.2	n/a

* Annual returns are the returns for one calendar year (12 months).

** Annualized returns convert multi-period returns (such as four years) into a compound annual return for ease of comparison between the time periods.

(1) Combined DEX Universe Bond Index and Real Return Bond Index.

(2) S&P/TSX Capped Composite Index commenced in January 2005. Previously blended benchmark consisting of S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.

(3) Global developed equity is MEPP's combined portfolio return of U.S. equities, EAFE equities and the Global Equity Master Pool.

(4) Combined S&P 1500 Index and MSCI EAFE Index.

(5) Changed to IPD Large Institutional All Property Index from the IPD All Property Index effective May 1, 2004. Prior to January 1, 2003, the Real Estate Index was the Russell Canadian Property Index (RCPI).

(6) Combined TSX Composite + 2.5 per cent for private equity, CPI + 6 per cent for private income and HFRX Global Investable Index (Hedged $Canadian) for absolute return strategies. The CPI in the private income benchmark is calculated and reported on a one-month lagged basis due to timing difference in reporting between AIMCo and Statistics Canada throughout the year.

The table below shows the value added by AIMCo in comparison to the various components of the policy benchmark.

Value Added (Lost) by Manager In Comparison to Benchmarks			
	1 Year %	**4 Years %**	**8 years %**
Short-term Fixed Income	1.2	1.2	0.8
Bonds and Mortgages	1.7	(1.7)	(0.5)
Real Rate of Return Bonds	(1.5)	(0.1)	0.0
Canadian Equity	3.2	0.4	0.2
Foreign Equity	4.1	(0.6)	0.1
Real Estate	(7.2)	0.3	0.7
Alternative Investments	(21.1)	(0.3)	n/a
Total Value Added (Lost)	**(0.1)**	**(0.8)**	**(0.1)**

Fixed Income Investments

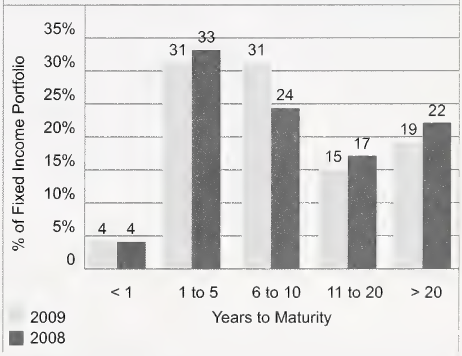
During the year, the U.S. Federal Reserve funds rate remained unchanged throughout the year at 0.25 per cent. In Canada, the target overnight rate declined to 0.25 per cent from 1.5 per cent at the beginning of the year.

Overall, the Canadian bond market performed well this year. The DEX Universe Bond Index measures the performance of marketable Canadian bonds with terms to maturity of more than one year. Over the past year, the Index increased by 5.4 per cent compared to an increase of 6.4 per cent the previous year while the DEX Real Return Bond Index increased by 14.5 per cent compared to an increase of 0.4 per cent last year. The short-term DEX 91-Day T-Bill Index increased by 0.6 per cent compared to 3.3 per cent the previous year.

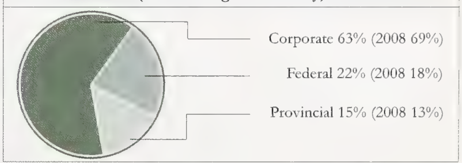
The Plan's actual gain in 2009 from long-term fixed income securities was 7.8 per cent, 1.5 per cent greater than the benchmark gain of 6.3 per cent. Over four years, the return from long-term fixed income securities was 3.2 per cent, 1.6 per cent less than the benchmark of 4.8 per cent.

At December 31, 2009, investments in fixed income securities increased to 35.7 per cent of total investments from 34.4 per cent at the end of the previous year. Fixed income investments now total $826 million, up $152 million, from $674 million the previous year.

Fixed Income Term Maturity Profile



Summary of 2009 Fixed Income Holdings (issued and guaranteed by)

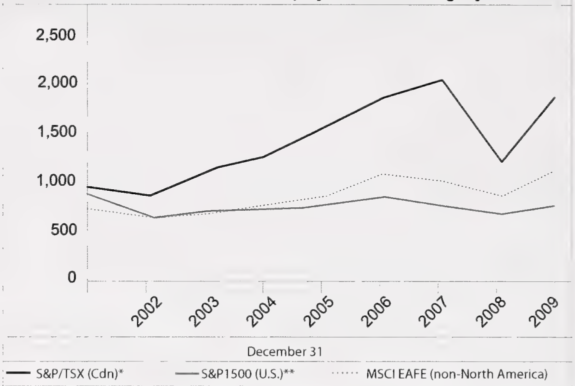


Equity Investments

Given MEPP's long-term investment horizon, its asset mix policy is structured to capture the historically higher rates of return from equities. At December 31, 2009 equities represent 54.7 per cent (2008: 52 per cent) of the Plan's total asset mix and consist of 21.8 per cent in Canada (2008: 21 per cent) and 32.9 per cent in foreign equities (2008: 31 per cent).

The chart to the right shows the growth over eight years in $1,000 (Canadian) invested in major equity markets in Canada, U.S. and non-North America for the period December 31, 2001 to December 31, 2009. For example, $1,000 invested on December 31, 2001, in the Canadian stock market represented by the S&P/TSX Composite Index would be worth approximately $1,832 at December 31, 2009. However, an investment of $1,000 (Canadian) in the U.S. equity market would be worth $755 and $1,100 in the Europe, Australasia and Far East markets.

$1,000 Canadian Invested in Equity Indexes over eight years



* S&P/TSX Capped Composite Index commenced in January 2005. Previously blended benchmark consisting of S&P/TSX Capped Composite Index and Nesbitt Burns Small Cap Index.

** S&P 1500 Index commenced in May 2004. Previously S&P 500 Index.

Canadian Equities

At December 31, 2009, Canadian equities represent 21.8 per cent of MEPP's total investments (or $504 million) compared to 21 per cent (or $411 million) at the end of the previous year. Canadian equities are managed through several strategies including both passive index and active mandates. AIMCo directly manages the passive index and certain active large cap strategies. External investment advisors also actively manage a large cap strategy (investing in companies with large market capitalization and incorporating value, growth, and core styles).

The actual gain from Canadian equity investments over the year was 38.3 per cent, 3.2 per cent more than the benchmark gain of 35.1 per cent based on the S&P/TSX Composite Index.

Canadian Equities		
	Actual Return	Benchmark Return
1 Year	38.3%	35.1%
4 Years	4.3%	3.9%
8 Years	8.1%	7.9%

Canadian Equity Holdings			
	By Industry Sector December 31, 2009	(Millions) $	%
1	Financials	144	29
2	Energy	117	24
3	Materials	81	16
4	Telecommunications	37	8
5	Industrials	33	7
6	Consumer discretionary	26	5
7	Consumer staples	24	5
8	Information technology	16	3
9	Utilities	12	2
10	Health care	5	1
		495	**100**
	Other assets net of liabilities	9	
		504	

Foreign Public Equities

At December 31, 2009, foreign equities comprised 32.9 per cent of total MEPP investments (or $765 million), compared to 31 per cent or $608 million at the end of the previous year. Foreign public equities are included in the Global Equity Master Pool (92 per cent), the Portable Alpha U.S. Pool (7 per cent) and the Emerging Markets Equity Pool (1 per cent). The Global Equity Master Pool includes exposure to publicly traded securities in the U.S., Europe, Australasia and the Far East (EAFE), Emerging Markets and Canada. The global portfolio is managed through structured equity index swaps and futures and actively managed securities. The emerging market portfolio is actively managed and includes securities in economies which are in the early stages of development and whose market has sufficient size and liquidity and is receptive to foreign investment. Major emerging markets include Brazil, Russia, India and China (so called "BRIC" countries). The portable alpha strategy provides exposure to hedge funds.

In 2009, the actual gain from foreign public equities was 15.4 per cent, 4.1 per cent more than the benchmark gain of 11.3 per cent based on the combined S&P 1500 Index and MSCI EAFE Index, measured in Canadian dollars.

Foreign Public Equities		
	Actual Return	**Benchmark Return**
1 Year	15.4%	11.3%
4 Years	(2.6%)	(2.0%)
8 Years	(0.8%)	(0.9%)

Global Developed Equities		
	Actual Return	**Benchmark Return**
1 Year	14.9%	11.3%
4 Years	(2.7%)	(2.0%)
8 Years	n/a	n/a

Emerging Markets		
	Actual Return	**Benchmark Return**
1 Year	55.8%	n/a
4 Years	3.3%	n/a
8 Years	n/a	n/a

Foreign Equity Holdings			
	By Industry Sector December 31, 2009	**(Millions) $**	**%**
1	Financials	139	20
2	Industrials	110	15
3	Information technology	80	11
4	Consumer discretionary	77	11
5	Consumer staples	76	11
6	Energy	72	10
7	Health Care	67	9
8	Materials	37	5
9	Telecommunications	30	4
10	Utilities	26	4
		714	**100**
	U.S. Hedge Funds	44	
	Assets, net of liabilities	7	
		765	

Foreign Public Equity Holdings		
By Geographic Region Sector December 31, 2009	**(Millions) $**	**%**
United States	375	49
Europe, Australasia & the Far East	336	44
Emerging Markets	34	5
Canada	13	2
	758	**100**
Other net assets	7	
	765	

Real Estate

At December 31, 2009, the Plan's real estate portfolio comprised 5.4 per cent (or $124 million) of total investments compared to 8.9 per cent (or $176 million) the previous year. Investments are primarily in a mix of office, retail, industrial and residential properties in major Canadian urban areas including Toronto, Ottawa, Montreal, Calgary, Edmonton and Vancouver. The focus is on quality, featuring strong locations and tenants.

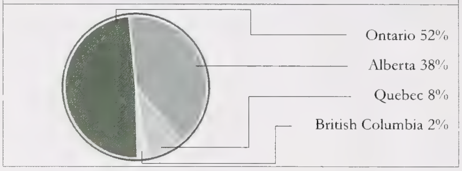
The actual loss from real estate in 2009 was 7.3 per cent, 7.2 per cent more than the benchmark loss of 0.1 per cent from the IPD Large Institutional All Property Index.

Real Estate		
	Actual Return	**Benchmark Return**
1 Year	(7.3%)	(0.1%)
4 Years	9.4%	9.1%
8 Years	11.4%	10.7%

Real Estate Holdings			
	Top 5 Real Estate Holdings December 31, 2009	**Location**	**Sector**
1	Yorkdale Shopping Centre	Toronto, Ontario	Retail
2	Square One Shopping Centre	Mississauga, Ontario	Retail
3	Place Ville-Marie	Montreal, Quebec	Office
4	Scarborough Town Centre	Toronto, Ontario	Retail
5	Bow Valley Square	Calgary, Alberta	Office

Real Estate by Type

Real Estate by Province

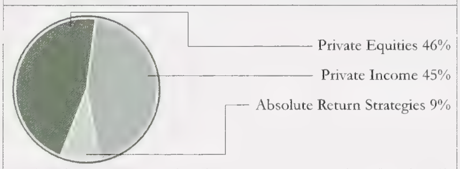


Alternative Investments

At December 31, 2009, the Plan's alternative investment portfolio comprised 4.2 per cent (or $97 million) of total investments, compared to 4.7 per cent (or $92 million) at the end of the previous year. The alternative investment portfolio consists of private equities, private income and absolute return strategy investments. These investments are both relatively illiquid asset classes and require time to build and exit.

The actual gain from alternative investments in 2009 was 2.1 per cent, 21.1 per cent less than the benchmark gain of 23.2 per cent which consists of the S&P/TSX Composite Index plus 2.5 per cent for private equity, CPI plus 6 per cent for private income and the HFRX Global Investable Index for absolute return strategies.

Alternative Investments



Private Equities

Private equity investments comprised 1.9 per cent (or $44 million) of the total investment portfolio at December 31, 2009 compared to 2.1 per cent (or $42 million) the previous year. Private equity investments include primarily merchant banking investments. Merchant banking transactions include expansion capital, acquisition financing, management buyouts, family succession, turnaround financings, project financings and leverage reductions. In 2009, private equities lost 2.7 per cent substantially below the benchmark gain of 38.2 per cent.

Private Income

Private income investments comprised 1.9 per cent (or $44 million) of the total investment portfolio at December 31, 2009 compared to 1.8 per cent (or $35 million) the previous year. Private income investments include infrastructure related projects that provide attractive returns plus inflation sensitivity with a long investment horizon. Infrastructure projects include transportation/logistics (e.g. toll roads, airports, ports and rail), power energy (e.g. contracted power generation and power transmission pipelines) and utilities (e.g. water, waste water and natural gas networks). In 2009, private income investments gained 2.1 per cent, which was below the benchmark gain of 7 per cent.

Absolute Return Strategies

Absolute return strategies (hedge funds) comprised 0.4 per cent (or $9 million) of the total investment portfolio at December 31, 2009 compared to 0.8 per cent (or $16 million) the previous year. This class of investment encompasses a wide variety of strategies with the objective of realizing positive returns regardless of the overall market direction. Absolute return strategies include hedge fund strategies such as convertible arbitrage, distressed securities, event driven equity market neutral and merger arbitrage. In 2009, absolute return strategies gained 17.2 per cent which was above the benchmark gain of 12.9 per cent.

Forward Looking Statements

There is little consensus among financial market participants regarding the direction of the global economy. With government stimulus tapering off, the onus will be on the private sector to propel the economy towards further recovery. However, the timing and extent of the change in leadership from government stimulus to private sector is uncertain, given persistently high unemployment and restrained consumer spending. In addition, increases in interest rates, which are expected in late 2010 or early 2011, may further temper economic growth. In this scenario, modest equity market returns with prevailing volatility are expected. For the long-term investor, this environment may create good opportunities to acquire high quality assets at a reasonable price.

The Board will continue to diligently monitor performance and management of the Plan's investments throughout 2010.

Proxy Voting

The Board considers proxy voting to be a key element of responsible investing and that thoughtful voting is a contributor to optimizing the long-term value of investments. We entrust the proxy voting function to AIMCo. Day-to-day research and mechanical functions have been outsourced to Glass Lewis, independent advisers that specialize in providing proxy-related services to institutional investors. While AIMCo may review and utilize the recommendations of the research provider in making proxy voting decisions, they are in no way obligated to follow such recommendations. Services of Glass Lewis cover 15,000 companies in 70 countries.

AIMCo believes that good governance enhances long-term shareholder value and demonstrates that belief as a member of the Canadian Coalition for Good Governance. Membership assists in the monitoring of dissenting opinion from within the organization and peers thereby leading to enriched decisions.

Risk Management System

The Board accepts that in order to meet the return objectives of the Plan, it must take on risk in the assets it invests. The Board invests in a diverse set of asset types to help improve the likelihood of the Board achieving its desired results for a given level of risk.

Investment risk management is a central thesis for our investment manager, AIMCo. AIMCo seeks to measure and monitor both historic and possible future risks, allocating risk as a scarce resource to the most promising investment opportunities. AIMCo maintains a quantitative investment risk system designed to operate across all asset classes and a variety of risk types such as market risk, currency risk and concentration risk.

Commencing in 2010, the Board will establish a series of limits on the risks to the Plan's funded status within its investment policy, which will be measured, monitored, and managed on this basis. As the ultimate risk to a pension plan is not being able to meet its pension obligations, the Board monitors the risk of the Plan's liabilities in relation to the investment assets. AIMCo will model the risk of both assets and theoretical liabilities, and report to the Board on a quarterly basis.

PLAN ADMINISTRATION

APS proudly serves MEPP and provides responsive and focused service to members, pensioners, employers and plan governors.

Under the terms of the *Pension Services Agreement* with the Minister, APS' administrative activities include:

- collecting member data and contributions;
- calculating and paying pension benefits;
- maintaining membership records;
- supporting the Board; and
- communicating pension information to members, pensioners and employers.

Membership

Active membership in MEPP increased by 4 per cent in 2009; rising to 5,452 as at December 31, 2009.

MEPP Membership	2009	2008
Active Members	5,452	5,244
Deferred Members	631	675
Pensioners	3,112	2,905
Total	**9,195**	**8,824**

Member Service Costs

APS is committed to providing timely and quality service in a cost-conscious and effective manner. APS' costs are distributed between the public sector pension plans it serves. MEPP costs are based on a cost-share formula determined by the Minister.

The cost per member for administrative services increased 5 per cent to $169 in 2009 (2008: $161). APS' operating costs increased by $6 per member, mainly due to increased staffing costs and relocation to new premises. Board and plan-specific costs increased by $2 per member in 2009, and is mainly attributed to increased actuarial work undertaken by the Board during the year.

MEPP's share of APS costs were $1.53 million in 2009, or $169 per MEPP member, based on average membership.

Cost per Member	2009 $	2008 $
Administration Operating Costs	127	121
Board and Plan-specific Costs	42	40
Total Plan Operating Costs	**169**	**161**

Plan Communications

APS provides ongoing communication support to the Board, its members, pensioners and employers.

MEPP members received annual report highlights and member annual statements. They were given the opportunity to attend information seminars to help them better understand, manage and access information about their pension.

MEPP employers regularly received the electronic newsletter, *Pension e-news*, which provided easy access to up-to-date pension information.

Plan members and others interested in MEPP visited the Plan's website (www.mepp.ca) in 2009. Over 19,800 unique visits were made to the site in 2009, compared to almost 19,400 in 2008.

Initiatives

In addition to the regular administrative activities above, APS worked on the following initiatives in 2009 to further enhance services to members, employers and the Board:

- **Member Services**—APS believes members identify with their pension plan from sign-up to sign-off, therefore APS provides all member services under the plan identity.

  In 2009, the Member Services Centre added a MEPP branded phone number. There were 674 calls to the MEPP phone line since the 1-877-889-MEPP line was introduced in August.
- **New Member Annual Statements (MAS)**—APS created a revised MAS that offers a clear, concise snapshot of a member's pension benefit at year-end. The statement promotes the long-term benefit of being a member of a defined benefit pension plan. The new MAS will be mailed to members in 2010.
- ***Employment Pensions Plan Act (EPPA)* Regulations**—Pension plan regulations changed effective July 1, 2009 to align with the *EPPA*. Regulations now allow a pension partner to waive his or her right to the death benefit of a working pension plan member. Members who leave employment and qualify as non-residents of Canada can now apply to be paid the commuted value of their pension. APS put in place the processes and communications materials needed to administer these regulation changes.
- ***mypensionplan* enhancements**—APS continues its focus on improving web self service on **mypensionplan**, a secure website for members.

  Since this service and the improved registration process was introduced in late 2008, more than 477 MEPP members were registered on **mypensionplan**—over 2,200 in total (approximately 36 per cent of active and deferred members).
- **Glossary**—Pensions are complicated and it's APS' job to make the pension experience easier. Therefore, references to glossary terms on the Plan websites (www.mepp.ca and **mypensionplan**) are now easier to understand.
- **Employer Services**—To improve employer compliance, employers received focused training on year-end processes, including annual reporting; this is also supported by online tutorials.
- **Disaster Recovery Planning**—If an emergency or disaster strikes, clients must have confidence they will still have access to critical pension services. Successful disaster recovery and business continuity exercises were held throughout the year to ensure APS is prepared to deliver services if unforeseen incidents occur.
- **New Name and Location**—Effective January 1, 2009, Alberta Pensions Administration Corporation changed its name to Alberta Pensions Services Corporation to emphasize its focus on service. The name change was publicly launched in 2009 to coincide with APS' move to southwest Edmonton. The new building supports free designated parking for clients, more space for one-on-one consultations with pension representatives and multi-functional boardrooms. Long-term leasing costs will be lower than APS' previous downtown office.

The Year Ahead

In 2010, APS plans to:

- perform a thorough review of the leave without pay purchase process and products;
- offer members and employers online registration for workshops and consultations; and
- begin work on the redesign of MEPP's website.

For further information on the Plan or to access **mypensionplan**, visit the MEPP website at www.mepp.ca.

2009 FINANCIAL STATEMENTS

ACTUARY'S OPINION

Aon Consulting Inc. was retained by the Management Employees Pension Board (MEP Board) to perform an actuarial valuation of the assets and liabilities of Management Employees Pension Plan as at December 31, 2008. Aon Consulting Inc. was further retained to prepare extrapolations of the valuation results to December 31, 2009, for inclusion in the Annual Report with respect to MEPP for the Year Ended December 31, 2009.

The valuation and extrapolation of the Plan's actuarial assets and liabilities were based on:

- Membership data provided by the APS as at December 31, 2008, and asset data provided by Alberta Finance and Enterprise as at December 31, 2008, and December 31, 2009;
- Methods prescribed by the Canadian Institute of Chartered Accountants for pension plan financial statements; and
- Assumptions about future events (economic and demographic) which were developed by management (the Government of Alberta) and Aon Consulting Inc. and are considered as management's best estimate of these events.

While the actuarial assumptions used to estimate liabilities for the Plan's financial statements contained in the Annual Report represent management's best estimate of future events, and while in our opinion these assumptions are reasonable, the Plan's future experience will differ from the actuarial assumptions. Emerging experience differing from the assumptions will result in gains or losses that will be revealed in future valuations, and will affect the financial position of the Plan.

I have tested the data for reasonableness and consistency with prior valuations and in my opinion the data is sufficient and reliable for the purposes of the valuation and the extrapolation. I also believe that the methods employed in the valuation and extrapolation and the assumptions used are, in aggregate, appropriate. My opinions have been given, and my valuation and extrapolation have been performed in accordance with accepted actuarial practice.

Robert Thiessen

Robert J. Thiessen
Fellow, Canadian Institute of Actuaries
Fellow, Society of Actuaries

April 15, 2010

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL REPORTING

The Management Employees Pension Plan (Plan) financial statements and financial information in the 2009 Annual Report are the responsibility of the Minister of Finance and Enterprise. Certain of these responsibilities are undertaken on behalf of the Minister of Finance and Enterprise by:

- AIMCo which is only responsible for the management of assets, subject to legislation and to the investment policies and goals approved by the Plan Board; and
- APS which is only responsible for administration of the Plan under an Administrative Services Agreement with the Minister of Finance and Enterprise. This responsibility also includes compilation of the Plan's Annual Report.

The information in the annual report has been approved by the Plan Board. The financial statements were approved by the Deputy Minister of Finance and Enterprise, based on information provided by APS and the Plan's actuary, and after consultation with the Plan Board.

The financial statements have been prepared by Alberta Finance and Enterprise in conformity with Canadian generally accepted accounting principles and, of necessity, include some amounts that are based on estimates and judgments. Financial information presented in the 2009 Annual Report that relates to the operations and financial position of the Plan is consistent with that in the financial statements.

To discharge their responsibility for the integrity and objectivity of financial reporting, Alberta Finance and Enterprise, APS and AIMCo each maintain a system of internal controls comprising written policies, standards and procedures, and a formal accountability structure. These systems are designed to provide management of these entities with reasonable assurance that transactions are properly authorized, reliable financial records are maintained, and assets are adequately accounted for and safeguarded.

The Auditor General of Alberta, the Plan's external auditor, provides an independent audit of the financial statements.

Tim Wiles

Tim Wiles
Deputy Minister of Finance and Enterprise

April 12, 2010

AUDITOR GENERAL Alberta

AUDITOR'S REPORT

To the Minister of Alberta Finance and Enterprise:

I have audited the Statements of Net Assets Available for Benefits and Liability for Accrued Benefits of the Management Employees Pension Plan as at December 31, 2009 and 2008 and the Statements of Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the year then ended. These financial statements are the responsibility of the Plan's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the Net Assets Available for Benefits and Liability for Accrued Benefits of the Plan as at December 31, 2009 and 2008 and the Changes in Net Assets Available for Benefits, Changes in Liability for Accrued Benefits and Changes in Deficiency for the years then ended in accordance with Canadian generally accepted accounting principles.

Merwan N. Saher CA
Acting Auditor General

Edmonton, Alberta
April 12, 2010

MANAGEMENT EMPLOYEES PENSION PLAN

Statements of Net Assets Available for Benefits and Liability for Accrued Benefits

As at December 31, 2009

	2009	2008
	($ thousands)	
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 2,316,398	$ 1,960,455
Accrued investment income and accounts receivable	329	120
Contributions receivable (Note 6)	825	10,833
	2,317,552	1,971,408
Liabilities		
Accounts payable	837	543
Liabilities for investment purchases	9,000	-
	9,837	543
Net assets available for benefits	2,307,715	1,970,865
Liability For Accrued Benefits		
Actuarial value of accrued benefits (Note 7)	2,790,914	2,539,439
Deficiency	**$ (483,199)**	**$ (568,574)**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statements of Changes in Net Assets Available for Benefits

For the years ended December 31, 2009

	2009	2008
	($ thousands)	
Increase in Assets		
Contributions (Note 8)	$ 144,721	$ 131,406
Net investment income (loss) (Note 9)		
Investment income (loss)	307,231	(411,196)
Investment expenses	(6,805)	(5,945)
Transfers from other plans, net	14,616	8,752
	459,763	(276,983)
Decrease in Assets		
Pension benefits	114,834	103,672
Refunds to members	6,552	8,405
Member service expenses (Note 10)	1,527	1,375
	122,913	113,452
Increase (decrease) in net assets	336,850	(390,435)
Net assets available for benefits at beginning of year	1,970,865	2,361,300
Net assets available for benefits at end of year	**$ 2,307,715**	**$ 1,970,865**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statements of Changes in Liability for Accrued Benefits

For the years ended December 31, 2009

	2009	2008
	($ thousands)	
Increase in liability for accrued benefits		
Interest accrued on opening liability for accrued benefits	$ 176,661	$ 164,903
Benefits earned	103,082	94,059
Net experience losses (Note 7b)	25,540	-
Net increase (decrease) due to actuarial assumption changes (Note 7a)	52,962	(61,839)
	358,245	197,123
Decrease in liability for accrued benefits		
Benefits paid and transfers	106,770	103,325
Net increase in liability for accrued benefits	251,475	93,798
Liability for accrued benefits at beginning of year	2,539,439	2,445,641
Liability for accrued benefits at end of year (Note 7)	**$ 2,790,914**	**$ 2,539,439**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Statements of Changes in Deficiency

For the years ended December 31, 2009

	2009	2008
	($ thousands)	
Deficiency at beginning of year	$ (568,574)	$ (84,341)
Increase (decrease) in net assets available for benefits	336,850	(390,435)
Net increase in liability for accrued benefits	(251,475)	(93,798)
Deficiency at end of year (Note 12)	**$ (483,199)**	**$ (568,574)**

The accompanying notes and schedules are part of these financial statements.

MANAGEMENT EMPLOYEES PENSION PLAN

Notes to the Financial Statements

For the years ended December 31, 2009

(All dollar amounts in thousands, except per member data)

Note 1 — Summary Description of the Plan

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41 and the *Management Employees Pension Plan* Alberta Regulation 367/93, as amended.

(a) General

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The Minister of Alberta Finance and Enterprise is the legal trustee for the Plan and accordingly Alberta Finance and Enterprise is management of the Plan. The Plan receives advice from the Management Employees Pension Plan Board (the Board).

(b) Plan Funding

Current service costs and the Plan's actuarial deficiency (see Note 12) are funded by employee and employer contributions at rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2009 were unchanged at 10.5 per cent of pensionable salary up to the maximum pensionable salary limit under the *Income Tax Act* for employees and 18 per cent for employers. The contribution rates are reviewed at least once every three years by the Minister of Alberta Finance and Enterprise, in consultation with the Board, based on recommendations of the Plan's actuary.

(c) Retirement Benefits

The Plan provides a pension of 2 per cent for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable salary limit under the federal *Income Tax Act*. The maximum service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of service.

Members are entitled to an unreduced pension on service after 1991 if they retire with at least five years of service and have either attained age 60, or age 55 and the sum of their age and years of service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

(d) Disability Benefits

Pensions may be payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

Note 1 — Summary Description of the Plan (continued)

(e) Death Benefits

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where service is less than five years, the benefits take the form of a lump sum payment.

(f) Termination Benefits and Refunds to Members

Members who terminate with fewer than five years of service receive a refund of their contributions plus interest. The refunds are accounted for as refunds to members on the Statement of Changes in Net Assets Available for Benefits.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a lump sum payment or a deferred pension. The lump sum payment is based on contributions and interest in relation to service before 1992 and commuted value for service after 1991. The commuted value portion of the lump sum payment is subject to the Plan's lock-in provisions.

(g) Optional Service and Transfers

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

(h) Cost-of-Living Adjustments

Pensions payable are increased each year on January 1 by an amount equal to 60 per cent of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31 in the previous year.

Note 2 — Summary of Significant Accounting Policies and Reporting Practices

(a) Basis of Presentation

These financial statements are prepared on the going concern basis in accordance with Canadian generally accepted accounting principles. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist plan members and others in reviewing the activities of the Plan for the year.

Except for real rate of return bonds which are held directly by the Plan, Plan investments are held in pooled investment funds administered by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to pool participants and to value purchases and sales of pool units.

(b) Valuation of Investments

Investments are recorded in the financial statements at fair value.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

For private investments and absolute return strategies the fair value is based on estimates where quoted market prices are not readily available. Estimated fair values may not reflect amounts that could be realized upon immediate sale, or amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from values that would have been used had a ready market existed for these investments.

Note 2 — Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Valuation of Investments (continued)

The methods used by AIMCo to determine the fair value of investments held either by the Plan or by pooled investment funds are explained in the following paragraphs:

i) Short-term securities, public fixed income securities and equities are valued at the year-end closing sale price or average of the latest bid and ask prices quoted by an independent securities valuation company.

ii) Private fixed income securities and mortgages are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.

iii) The fair value of private equity and income investments are estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and multiple earnings analyses.

iv) The fair value of private real estate investments is reported at their most recent appraised value net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows.

v) The fair value of Absolute Return Strategy Pool investments is estimated by external managers.

(c) Income Recognition

Investment income and expenses are recorded on an accrual basis. Dividends are accrued on the ex-dividend date. Gains or losses on investments, including those from derivative contracts, are recognized concurrently with changes in fair value.

(d) Foreign Exchange

Foreign currency transactions are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments and any other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rate. Exchange differences are included in the determination of net investment income.

(e) Valuation of Derivative Contracts

Derivative contracts (see Note 5) include equity and bond index swaps, interest rate swaps, forward foreign exchange contracts, futures contracts, credit default swaps, cross-currency interest rate swaps and swap option contracts. The value of derivative contracts is included in the fair value of pooled investment funds. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

i) Equity and bond index swaps are valued based on changes in the appropriate market index net of accrued floating rate interest.

ii) Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and year-end exchange rates.

Note 2 — Summary of Significant Accounting Policies and Reporting Practices (continued)

(e) Valuation of Derivative Contracts (continued)

iii) Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities.

iv) Forward foreign exchange contracts and futures contracts are based on quoted market prices.

v) Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swaps.

(f) Valuation of Liability for Accrued Benefits

The value of liability for accrued benefits and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and the results from the most recent valuation are extrapolated, on an annual basis, to year end. The valuation uses the projected benefit method prorated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

(g) Measurement Uncertainty

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies and real estate investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's liability for accrued benefits, and

ii) the estimated fair values of the Plan's private investments, absolute return strategies and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's liability for accrued benefits, private investments, absolute return strategies and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's accrued benefits are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in liability for accrued benefits in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

Note 3 — Investments (Schedules A to D)

	2009 Fair Value ($ thousands)	%	2008 Fair Value ($ thousands)	%
Fixed Income Securities (Schedule A)				
Deposit in the Consolidated Cash Investment Trust Fund (a)	$ 30,625	1.3	$ 8,708	0.4
Universe Fixed Income Pool (b)	583,802	25.2	518,936	26.5
Private Mortgage Pool (c)	113,525	4.9	112,362	5.7
Currency Alpha Pool (e)	3,368	0.2	4,951	0.3
Fixed Income Overlay Strategy (f)	(338)	-	(49,182)	(2.5)
Tactical Asset Allocation Pool	3,012	0.1	1,430	0.1
	733,994	31.7	597,205	30.5
Real rate of return bonds (d)	91,718	4.0	76,680	3.9
	825,712	35.7	673,885	34.4
Canadian Equities (Schedule B)				
Canadian Equities Master Pool (g)	490,778	21.2	-	-
Canadian Equities Transition Account (h)	13,641	0.6	-	-
Canadian Equity Overlay Strategy Pool (f)	-	-	19,343	1.0
Other Canadian Equity Pools	-	-	391,548	20.0
	504,419	21.8	410,891	21.0
Global Equities (Schedule C)				
Global Equities Master Pool (i)	701,284	30.3	-	-
Portable Alpha U.S. Pool (j)	57,632	2.4	67,460	3.5
Emerging Markets Equity Pool (k)	5,591	0.2	8,698	0.4
Global Equity Overlay Strategy Pool (f)	385	-	43,277	2.2
Structured Transition Pool	-	-	1,185	0.1
Other Global Equity Pools	-	-	487,242	24.8
	764,892	32.9	607,862	31.0
Real Estate Equities (Schedule D) (l)	124,121	5.4	175,510	8.9
Private Equity Pools (m)	44,364	1.9	41,823	2.1
Private Income Pools (n)	44,200	1.9	34,803	1.8
Absolute Return Strategy Pool (o)	8,690	0.4	15,681	0.8
Total investments	**$ 2,316,398**	**100.0**	**$ 1,960,455**	**100.0**

Note 3 — Investments (Schedules A to D) (continued)

(a) The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years.

(b) The Universe Fixed Income Pool (UFIP) is managed with the objective of providing competitive returns comparable to the total return of the DEX Universe Bond Index over a four-year period while maintaining adequate security and liquidity of participants' capital. The portfolio is comprised of Canadian fixed income instruments and debt-related derivatives. Competitive returns are achieved through management of the portfolio duration and sector rotation.

(c) The Private Mortgage Pool is managed with the objective of providing investment returns higher than the DEX Universe Bond Index over the long-term. The portfolio is comprised primarily of commercial mortgage loans and provincial bond residuals and specialty mortgages. The Pool invests primarily in loans insured by a federal agency and first-mortgage loans that provide diversification by property usage and geographic location.

(d) Real rate of return bonds are issued or guaranteed by the Government of Canada and bear interest at a fixed rate adjusted for inflation.

(e) The Currency Alpha Pool is managed with the objective of providing a fair return over a four-year period while reducing return volatility through multiple manager investment styles and strategies. The return is achieved through active currency management with currency positions established primarily through forward foreign exchange contracts.

(f) The Overlay Strategy Pools provide participants with a quick, effective and efficient way to gain interim exposure to a major asset class by altering the portfolio weights of broad asset classes using synthetic instruments. The asset classes that can be replicated in the overlay program include fixed income securities, Canadian equities, U.S. equities, Europe, Australasia and the Far East (EAFE) equities, major foreign currencies and styles and sectors. At December 31, 2009, the overlay strategy pools consisted of cash and cash equivalents which support approximately 5 per cent to 10 per cent of the Pool's notional exposure through futures and swap contracts.

(g) On July 31, 2009, the Plan consolidated its holdings in various Canadian public equity pools and invested in the newly created Canadian Equities Master Pool (CEMP). CEMP owns all the units of the following pools:

	Per cent of CEMP	
	2009	2008
Canadian Equities Index Pool	40.3	-
Canadian Quantitative Strategies Pool	32.1	-
Canadian External Managers Pool	27.6	-
	100.0	-

CEMP provides participants with the opportunity to gain broad investment exposure to Canadian public equity markets by investing in directly-held public equities and structured equity products.

CEMP has a performance objective to provide returns higher than the total return of the S&P/TSX Composite Index over a four-year moving average period. The Pool gains exposure to the Canadian public equity market through a structured investment implementation and a quantitative minimum variance implementation, and uses an overlay strategy to manage the overall risk exposure. The Pool's investment in units of the Floating Rate Note Pool (FRNP) is used as the underlying securities to support the index swaps of the Pool. FRNP is managed with the objective of generating floating rate income needed for the swap obligations in respect of structured investments in Canadian equities. Through the use of interest rate swaps FRNP provides investment opportunities in floating rate instruments with remaining term-to-maturities of five years or less.

Note 3 — Investments (Schedules A to D) (continued)

(h) The Canadian Equities Transition Account holds cash and one Canadian equity investment in the financial sector.

(i) On July 31, 2009, the Plan consolidated its holdings in various U.S. and Non-North American public equity pools and invested in the newly created Global Equities Master Pool (GEMP). GEMP owns all the units in the following pools:

	Per cent of GEMP	
	2009	2008
Global External Managers Pool	43.0	-
Global Equities Index Pool	35.8	-
North American Concentrated Equity Pool	18.7	-
Global Equities Overlay Pool	1.8	-
EAFE Quantitative Equity Strategies	0.7	-
	100.0	-

GEMP provides participants with the opportunity to gain broad investment exposure to global public equity markets by investing in directly held public equities, structured equity products and concentrated equities.

GEMP has a performance objective to provide returns higher than the total return of the Morgan Stanley Capital International (MSCI) World Total Return Index over a four-year moving average period. The pool gains exposure to global equity markets in developed countries through a structured investment implementation and uses an overlay strategy to manage the overall risk exposure. The Pool's North American concentrated equity strategy holds larger positions in mid-size Canadian and American companies ranging from 5 per cent to 20 per cent of outstanding common shares. The Pool's investment in units of FRNP is used as the underlying securities to support the index swaps of the Pool.

(j) The Portable Alpha U.S. Pool provides exposure to the global equity market by replicating the MSCI World Total Return Index with MSCI World Total Return index swaps and futures contracts. Externally managed absolute return strategy investments and money market instruments are actively used as underlying securities to add value to the exposure. As at December 31, 2009, the performance objective is to provide returns higher than the total return of the MSCI World Total Return Index over a four-year period.

(k) The Emerging Markets Equity Pool consists of publicly traded equities in emerging markets around the world. The portfolio is actively managed by external managers with expertise in emerging markets. The performance objective is to provide returns higher than the total return of the MSCI Emerging Markets Free Net (EMF) Index over a four-year period.

(l) The Private Real Estate Pool is managed with the objective of providing investment returns higher than the Investment Property Databank (IPD) Large Institutional All Property Index over the long term. Real estate is held through intermediary companies which have issued to the Pool, common shares and participating debentures secured by a charge on real estate. Risk is reduced by investing in properties that provide diversification by geographic location, by property type and by tenancy. The Pool is intended to provide diversification from the securities market.

Note 3 — Investments (Schedules A to D) (continued)

(m) The Private Equity Pools are managed with the objective of providing investment return comparable to the S&P/TSX Composite Index plus 2.5 per cent over the long-term. The Pools invest in institutionally sponsored Canadian private equity pools managed by experienced advisors with proven records. Risk is reduced by avoiding direct investments in private companies and by limiting holdings in any single pool.

(n) The Private Income Pools are managed with the objective of providing an investment return comparable to the Consumer Price Index plus 6 per cent over the long-term. The Pool invests in infrastructure-related projects that are structured to provide high current income.

(o) The Absolute Return Strategy Pool is managed with the objective of providing investment returns higher than the HFRX Global Investable Index. The Pool uses external managers who employ various investment strategies. These strategies are expected to produce absolute positive investment returns with lower volatility.

Note 4 — Investment Risk Management

Fair values of investments are exposed to credit risk and price risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Price risk is comprised of currency risk, interest rate risk and market risk. Currency risk relates to the possibility that the investments will change in value due to future fluctuations in foreign exchange rates. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. Market risk relates to the possibility that the investments will change in value due to future fluctuations in market prices.

Actuarial liabilities of the Plan are primarily affected by the long-term nominal and real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following long-term policy asset mix benchmark:

Fixed Income	32.5%
Foreign equity	30.0%
Canadian equity	22.0%
Real estate	7.0%
Private income	4.0%
Private equity	3.0%
Absolute return strategies	1.0%
Short-term	0.5%

Investment risk is reduced through asset class diversification, diversification within each asset class, quality constraints on fixed income instruments, and restrictions on amounts exposed to countries designated as emerging markets. Controls are in place respecting the use of derivatives (see Note 5). Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5).

Note 5 — Derivative Contracts

Derivative contracts are financial contracts, the value of which is derived from the value of underlying assets, indices, interest rates or currency rates. The Plan uses derivative contracts held indirectly through pooled investment funds to enhance return, manage exposure to interest rate risk and foreign currency risks and for asset mix management purposes. The notional value of a derivative contract represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.

Note 5 — Derivative Contracts (continued)

A swap is a contractual agreement between two counterparties to exchange a series of cash flows based on a notional amount. An equity or bond index swap involves the exchange of a floating interest rate cash flow for one based on the performance of a market index. For interest rate swaps, parties generally exchange fixed and floating rate interest cash flows based on a notional amount. A credit default swap allows counterparties to buy and sell protection on credit risk inherent in a bond. A premium is paid, based on a notional amount, from one counterparty to a second counterparty in exchange for a contingent payment should a defined credit event occur with respect to the underlying security. Cross-currency interest rate swaps are contractual obligations in which the principal amountsof Canadian fixed-income securities denominated in foreign corrency are exchanged for Canadian currency amounts both initially and at maturity. Over the term of the cross-currency swap, counterparties exchange fixed-to-fixed and fixed-to-floating interest rate cash flows in the swapped currencies. There are underlying securities supporting all swaps. Leveraging is not allowed.

Forward foreign exchange contracts are contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

Futures contracts are agreements to receive or pay cash on an agreed settlement date based on changes in the level of a specified stock index.

Swap option contracts include the right, but not the obligation, to enter into an interest rate swap at a preset rate within a specified period of time.

The following is a summary of the Plan's proportionate share of the notional amount and fair value of derivative contracts held by pooled funds at December 31, 2009:

	2009					2008	
	Maturity						
	Under 1 Year	1 to 3 Years	Over 3 Years	Notional Amount	Net Fair Value (a)	Notional Amount	Net Fair Value (a)
		%		($ thousands)		($ thousands)	
Credit default swap contracts	30	38	32	492,381	(3,543)	727,690	(13,773)
Equity index swap contracts	99	1	-	453,600	9,281	499,455	5,906
Forward foreign exchange contracts	100	-	-	317,688	2,535	160,696	(5,300)
Futures contracts	100	-	-	246,653	16,516	100,094	14,811
Swap options contracts	100	-	-	140,594	(811)	-	-
Interest rate swap contracts	21	69	10	121,552	(4,216)	184,859	(8,732)
Cross-currency interest rate swaps	42	30	28	94,496	3,660	130,110	(5,851)
Bond index swap contracts	100	-	-	21,473	(192)	35,330	929
				$ 1,888,437	$ 23,230	$ 1,838,234	$ (12,010)

(a) The method of determining fair value of derivative contracts is described in Note 2(e).

The notional amounts, upon which payments are based, are not indicative of the credit risk associated with derivative contracts. Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Plan attempts to limit its credit exposure by dealing with counter-parties believed to have a good credit standing.

Note 6 — Contributions Receivable

	2009	2008
	($ thousands)	
Employers	521	6,833
Employees	304	4,000
	$ 825	**$ 10,833**

Note 7 — Liability for Accrued Benefits

(a) Actuarial Valuation and Extrapolation Assumptions

An actuarial valuation of the Plan was carried out as at December 31, 2008 by Aon Consulting Inc. and was then extrapolated to December 31, 2009.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,790,914 (2008: $2,539,439) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the investment rate of return, inflation rate and salary escalation rate.

The major assumptions used for accounting purposes were:

	2009	2008
	%	
Investment rate of return	6.60	6.75
Inflation Rate		
For 2009	3.50	3.50
Thereafter	2.25	2.25
Salary Escalation Rate*		
For 2009	4.00	4.00
Thereafter	3.50	3.50
Mortality Rate	Uninsured Pensioner 1994 Table Projected to 2020 using Scale AA	

* In addition to age specific merit and promotion increase assumptions.

Note 7 — Liability for Accrued Benefits (continued)

(b) Net Experience Losses

Net experience losses of $25,540 (2008: $nil) arose from differences between the actuarial assumptions used in the 2008 valuation and 2009 extrapolation for reporting compared to actual results.

(c) Sensitivity of Changes in Major Assumptions

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2009:

	Sensitivities		
	Changes in Assumptions %	**Increase in Plan Deficiency ($ thousands)**	**Increase in Current Service Cost as a % Pensionable Earnings***
Inflation rate increase holding nominal investment return and salary escalation assumptions constant	1.0	187,400	1.3
Salary escalation rate increase holding inflation rate and nominal investment return assumptions constant	1.0	19,000	0.4
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0)	364,000	3.9

* The current service cost of accruing benefits (excluding 0.4% allowance for administration expenses) as a percentage of pensionable earnings as determined by the December 31, 2008 valuation was 20.3%.

Note 8 — Contributions

	2009	2008
	($ thousands)	
Current and optional service		
Employers	$ 89,843	$ 81,444
Employees	54,878	49,962
	$ 144,721	$ 131,406

Note 9 — Net Investment Income (Loss)

(a) Investment Income (Loss)

Net investment income (loss) of the Plan is comprised of the following:

	2009	2008
	($ thousands)	
Investment income (loss)		
Net realized and unrealized gain (loss) on investments, including those arising from derivative transactions	$ 227,358	$ (502,282)
Interest income	49,286	57,490
Dividend income	23,401	24,036
Real estate operating income	6,591	8,126
Securities lending income	595	1,434
	307,231	(411,196)
Investment expenses	(6,805)	(5,945)
Net investment income (loss)	**$ 300,426**	**$ (417,141)**

The following is a summary of the Plan's proportionate share of net investment income (loss) by type of investments:

	2009	2008
	($ thousands)	
Canadian equities	$ 143,325	$ (189,538)
Global equities	110,755	(226,332)
Fixed income securities	54,250	(5,323)
Absolute return strategy	2,328	(5,451)
Private income	651	4,330
Private equities	(1,078)	(3,898)
Private real estate	(9,805)	9,071
Net investment income (loss)	**$ 300,426**	**$ (417,141)**

Note 9 — Net Investment Income (Loss) (continued)

(a) Investment Income (Loss) (continued)

The following is a summary of the investment performance results attained by the Plan:

	2009	2008	Four-Year Compound Annualized Return	Eight-Year Compound Annualized Return	Sixteen-Year Compound Annualized Return
Time-weighted rates of return*					
Actual gain (loss)	15.0%	(17.6%)	2.6%	5.1%	7.2%
*Benchmark gain (loss)***	15.1%	(14.5%)	3.4%	5.2%	7.1%
Value added (lost) by investment manager	(0.1%)	(3.1%)	(0.8%)	(0.1%)	0.1%

* The measure involves the calculation of the return realized by the Plan over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

** The policy benchmark return is a product of the weighted average policy sector weights and sector returns. Some of the sector benchmark returns used in the determination of the overall policy benchmark are based on management's best estimate, which may vary significantly from the final benchmark return. Differences between the estimated sector benchmark returns and the final benchmark returns are recorded in the period of the change.

(b) Investment Expenses

Investment expenses are recognized on an accrual basis and include those costs and fees incurred to earn investment income of the Plan. The Plan recognizes portfolio management and administration expenses incurred directly by the Plan and its share of expenses through pool investment funds.

Investment services provided by AIMCo are charged directly to the Plan and to pooled funds on a cost-recovery basis. Investment services provided by external managers are charged to pooled funds based on a percentage of net assets under management at fair value or committed amounts. Fees charged by external managers include primarily regular management fees and performance/incentive-based fees to the external recognized. Investment services include daily trading of securities, portfolio research and analysis, custody of securities, valuation of securities, performance measurement, maintenance of investment systems and internal audit.

Alberta Finance and Enterprise provides investment accounting, reporting and treasury management services for the Plan. A portion of these costs is charged to the Plan.

Investment expenses as a percentage of net assets and per member are provided below:

	2009	2008
	($ thousands)	
Total investment expenses	**$ 6,805**	**$ 5,945**
Investment expenses as a percentage of net assets	0.29%	0.30%
Investment expenses per member	$ 755	$ 695

Note 10 — Member Service Expenses

Member service expenses of $1,527 (2008: $1,375) which include the Board costs in the amount of $73 (2008: $77), were charged to the Plan on a cost-recovery basis. These are $169 (2008: $161) per member.

The Plan's share of APS' operating and plan-specific costs was based on cost allocation policies approved by the Minister of Alberta Finance and Enterprise.

Note 11 — Total Plan Expenses

Total Plan expenses of investment expenses per Note 9(b) and member service expenses per Note 10 are $8,332 (2008: $7,320) or $924 (2008: $856) per member and 0.36 per cent (2008: 0.37 per cent) of net assets under administration.

Note 12 — Funding of Actuarial Deficiency

The Plan's deficiency is determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $2,423,000 at December 31, 2009 (2008: $2,069,000).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totalling 7.8 per cent of pensionable earnings shared between employees and employers until December 31, 2017. The special payments have been included in the rates in effect at December 31, 2009 (see Note 1(b)).

Note 13 — Comparative Figures

Comparative figures have been reclassified to be consistent with 2009 presentation.

Note 14 — Responsibility for Financial Statements

These financial statements were approved by the Deputy Minister of Alberta Finance and Enterprise based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

Schedule A

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Effective Net Investments in Fixed Income Securities

December 31, 2009

	Plan's Share	
	2009	2008
	($ thousands)	
Deposits and short-term securities	$ 46,635	$ 41,719
Fixed income securities (a) (b)		
Public		
Government of Canada, direct and guaranteed	168,877	115,659
Provincial		
Alberta, direct and guaranteed	87	143
Other Provincial, direct and guaranteed	117,626	81,550
Municipal	3,286	34
Corporate, public and private	485,305	443,465
	775,181	640,851
Receivable from sale of investments and accrued investment income	14,339	5,654
Accounts payable and accrued liabilities	(10,443)	(14,339)
	3,896	(8,685)
	$ 825,712	$ 673,885

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in deposits and fixed income securities is reduced by the notional amount of derivative contracts totalling $338 (2008: $54,485).

(b) Fixed income securities held as at December 31, 2009 had an average effective market yield of 4.8 per cent per annum (2008: 5.3 per cent per annum). The following term structure of these securities as at December 31, 2009 was based on the principal amount:

	2009	2008
	%	
under 1 year	4	4
1 to 5 years	31	33
6 to 10 years	31	24
11 to 20 years	15	17
over 20 years	19	22
	100	**100**

Schedule B

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Effective Net Investments in Canadian Equities

December 31, 2009

	Plan's Share	
	2009	2008
	($ thousands)	
Deposits and short-term securities	$ 6,088	$ 9,050
Public equities (a) (b)		
Consumer discretionary	32,783	23,623
Consumer staples	23,619	13,830
Energy	116,903	107,109
Financials	143,680	114,511
Health care	4,634	1,007
Industrials	36,802	24,155
Information technology	16,171	13,037
Materials	81,344	62,967
Telecommunication services	26,170	26,062
Utilities	12,519	5,093
	494,625	391,394
Pooled investment funds	-	13,153
Receivable from sale of investments and accrued investment income	7,605	7,567
Accounts payable and accrued liabilities	(3,899)	(10,273)
	3,706	(2 ,706)
	$ 504,419	**$ 410,891**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in Canadian public equities includes the notional amount of Canadian equity index swap and futures contracts totalling $161,566 (2008: $168,883).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the Standard and Poor's Toronto Stock Exchange Composite Index.

Schedule C

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Effective Net Investments in Global Equities

	Plan's Share	
	2009	2008
	($ thousands)	
Deposits and short-term securities	$ 7,103	$ 13,340
Public equities (a) (b)		
Consumer discretionary	77,222	52,732
Consumer staples	76,151	68,089
Energy	71,842	64,608
Financials	139,381	102,153
Health care	67,303	75,034
Industrials	109,418	66,974
Information technology	80,346	61,262
Materials	37,148	29,529
Telecommunication services	29,687	39,803
Utilities	25,620	29,740
	714,118	589,924
Pooled investment funds	-	4,495
U.S. Hedge Funds	44,304	-
	758,422	594,419
Receivable from sale of investments and accrued investment income	4,857	6,826
Accounts payable and accrued liabilities	(5,490)	(6,723)
	(633)	103
	$ 764,892	**$ 607,862**

(a) Direct investments and derivative contracts are classified based on the risk exposure to the above asset mix categories. The Plan's effective net investment in global public equities includes the notional amount of global equity index swaps and futures contracts totalling $302,603 (2008: $345,461).

(b) The sector classification conforms to the Global Industry Classification Standard followed by the MSCI World Total Return Index. The following is a summary of the Plan's investment in global equities by geographic region:

	Plan's Share	
	2009	2008
	($ thousands)	
United States	$ 374,998	$ 280,583
Europe, Australasia and the Far East	336,478	305,138
Canada	34,235	-
Emerging Markets	12,711	8,698
	$ 758,422	**$ 594,419**

Schedule D

MANAGEMENT EMPLOYEES PENSION PLAN

Schedule of Investments in Real Estate

	Plan's Share	
	2009	2008
	($ thousands)	
Deposits and short-term securities	$ 3,226	$ 384
Real estate (a)		
Office	53,775	78,991
Retail	38,886	50,804
Industrial	15,756	27,496
Residential	7,130	10,680
	115,547	167,971
Pooled investment funds	4,670	5,953
Accrued income and accounts receivable	678	1,202
	$ 124,121	**$ 175,510**

(a) The following is a summary of the Plan's investment in real estate by geographic locations:

	Plan's Share	
	2009	2008
	($ thousands)	
Ontario	60,058	86,116
Alberta	43,320	63,645
Quebec	9,723	14,577
British Columbia	2,446	3,633
	$ 115,547	$ 167,971

TEN-YEAR PLAN SUMMARY
(UN-AUDITED)

MEPP Ten-year Plan Summary
as at December 31, 2009

($ thousands)

	2009	2008	2007^	2006	2005	2004	2003	2002	2001	2000
Change in net assets										
Income										
Investment income (loss)	$ 307,231	$ (411,196)	$ 65,059	$ 279,150	$ 227,795	$ 163,484	$ 190,938	$ (76,107)	$ (64,883)	$ 118,341
Contributions	144,721	131,406	114,463	104,003	86,003	66,663	56,297	46,230	42,361	38,983
Total Income	**451,952**	**(279,790)**	**179,522**	**383,153**	**313,798**	**230,147**	**247,235**	**(29,877)**	**(22,522)**	**157,324**
Expenditures										
Benefits paid	114,834	103,672	93,819	84,937	76,873	68,145	61,296	54,714	48,476	43,160
Refunds to members	6,552	8,405	5,987	4,653	1,900	2,117	1,143	1,603	1,247	1,415
Transfers to (from) other plans	(14,616)	(8,752)	(985)	(322)	(953)	186	170	293	683	(243)
Additional Government contribution	-	-	(40,000)	-	-	-	-	-	-	-
Investment expenses^	6,805	5,945	5,081	3,958	3,368	3,208	1,930	1,868	1,748	1,496
Member Service expenses	1,527	1,375	1,212	1,207	1,416	1,427	1,363	1,105	686	487
Total expenditures	**115,102**	**110,645**	**65,114**	**94,433**	**82,604**	**75,083**	**65,902**	**59,583**	**52,840**	**46,315**
Increase (decrease) in net assets	**336,850**	**(390,435)**	**114,408**	**288,720**	**231,194**	**155,064**	**181,333**	**(89,460)**	**(75,362)**	**111,009**
Net Assets										
Investments										
Short-term	30,625	8,706	10,780	11,844	11,941	29,865	17,784	9,889	27,737	33,016
Fixed income securities	795,087	665,179	855,975	788,921	741,675	640,618	567,255	529,924	544,517	619,941
Equities										
Canadian	504,419	410,891	551,487	494,753	473,466	449,245	423,513	354,208	457,113	469,248
Global	764,892	-	-	-	-	-	-	-	-	
United States	-	284,038	318,886	354,435	282,183	249,229	230,224	212,193	445,930	428,950
Non-North American	-	323,824	363,542	374,427	313,927	269,192	255,251	210,579	-	-
Real Estate	124,121	175,510	173,182	157,730	126,796	83,191	72,912	69,780	-	-
Alternative Investments	97,254	92,307	78,054	55,875						
Total Investments	**2,316,398**	**1,960,455**	**2,351,906**	**2,237,985**	**1,949,988**	**1,721,340**	**1,566,939**	**1,386,573**	**1,475,297**	**1,551,155**
Contribution and other receivables	1,154	11,021	9,694	8,988	8,282	5,779	5,215	4,716	4,769	4,318
Liabilities	(9,837)	(611)	(300)	(81)	(98)	(141)	(240)	(708)	(25)	(70)
Net Assets available for benefits	**$2,307,715**	**$1,970,865**	**$2,361,300**	**$2,246,892**	**$1,958,172**	**$1,726,978**	**$1,571,914**	**$1,390,581**	**$1,480,041**	**$1,555,403**
Actuarial value of accrued benefits	2,790,914	2,539,439	2,445,641	2,253,657	2,124,067	1,995,079	1,861,928	(1,692,549)	(1,474,703)	(1,384,545)
Surplus (Deficiency)	**(483,199)**	**(568,574)**	**(84,341)**	**(6,765)**	**(165,895)**	**(268,101)**	**(290,014)**	**(301,968)**	**5,338**	**170,858**
Funded Ratio (%)	83	78	97	100	92	87	84	82	100	112
Performance (%)										
Long-term goal	6.75	6.75	6.75	6.75	6.75	6.75	6.75	7.0	7.25	7.25
Rate of return-nominal	15.0	(17.6)	2.7	14.0	13.1	10.2	13.7	(5.3)	(4.4)	8.1
Benchmark	15.1	(14.4)	2.6	13.2	11.9	10.0	12.8	(5.6)	(4.1)	7.0
Consumer Price Index (Canada)	1.0	2.0	2.4	1.6	2.2	2.1	2.0	3.9	0.7	3.2
Real rate of return	14.0	(19.8)	0.3	12.4	10.9	8.1	11.7	(9.2)	(5.1)	4.9
Interest Rates (%)										
Bank of Canada	0.25	1.75	4.25	4.25	3.25	2.75	2.75	3.00	2.50	6.00
US Federal Reserve	0.25	0.50	4.25	5.25	4.25	2.25	1.00	0.75	1.25	6.50
Market Indices (%)										
S&P/TSX ($Cdn)	35.1	(33.0)	9.8	17.3	24.1	14.5	26.8	(12.4)	(12.6)	7.4
S&P 1500 ($Cdn)^^	8.8	(21.6)	(10.6)	15.3	1.6	3.3	5.3	(22.9)	(6.4)	(5.8)
MSCI EAFE ($Cdn)	12.6	(29.8)	(5.7)	26.0	10.0	12.0	13.3	(16.8)	(16.5)	(11.2)
DEX Universe Bond Index^^^	5.4	6.4	3.7	4.1	6.5	7.1	6.7	8.7	8.1	10.3
Participants ^^^^										
Active members	5,452	5,244	4,868	4,654	4,447	4,206	4,029	3,665	3,405	3,373
Inactive members	631	675	733	789	756	731	770	873	929	861
Retirees	3,112	2,905	2,684	2,446	2,211	2,016	1,837	1,669	1,480	1,329
Total	**9,195**	**8,824**	**8,285**	**7,889**	**7,414**	**6,953**	**6,636**	**6,207**	**5,814**	**5,563**
Contribution Rates (%)										
Employees	10.50	10.50	10.50	10.50	10.50	9.50	9.50	7.75	7.75	7.75
Employers	18.00	18.00	18.00	18.00	18.00	13.10	13.10	10.75	10.75	10.75
Annual COLA pension adjustment	2.16	2.94	2.16	1.20	0.78	3.42	1.02	1.98	1.98	1.32

^ Comparative figures have been restated to be consistent with 2007 presentation.
^^ S&P 500 for 2005 and prior years.
^^^ Scotia Capital Fixed Income Indices for 2006 and prior years.
^^^^ Participant counts may differ from the actuarial valuation results due to timing differences and treatment of inactive member accounts.
^^^^^ Updated in years when actuarial valuations are performed.

2010 DIRECTORY

Board Members

Employee Nominees

Blake Bartlett, Chair
Scott Kashuba
David Lawson

Government Nominees

Nancy Bochard
Roderick McDermand
Don Smallwood, Vice-chair

Public Service Commissioner Nominee (non-voting)

Christa Taylor

Investment Committee

Joe Doolan*
Jim Hinks*
David Lawson, Chair
Don Smallwood, Vice-chair
*external member

MEPP Plan Board Manager (APS)

Wanda Vlahac

Advisors and Suppliers

Administrator: Alberta Pensions Services Corporation
Fund Management: Alberta Investment Management Corporation
Auditor: Auditor General of Alberta
Actuary: Aon Consulting Inc.
Investment Consultant: API Asset Performance Inc.

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